MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BFN3034 – BEHAVIOURAL FINANCE

(All sections / Groups)

02 MARCH 2020
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1.This question paper consists of TWO **(2)** pages excluding cover page.

2. Answer ALL questions. The marks for each section are given in the question paper.

3. Please write your answers for all the questions in the answer booklet.

Answer ALL Questions

Question 1

(a) Identify and briefly explain each of behavioral biases from the statement below.

(i) A lawsuit is brought against a company. Investors know from past experience with the company that news of the lawsuit is likely to make the company's share price fall. Many investors sell their holdings of the company, causing a further decline in the asset's value. Subsequently, investors in other companies in the same industry fear lawsuits, knowing that a lawsuit has been brought against a similar company. Those investors sell their holdings. The prices of shares in other companies in the same industry then also fall.

(5 marks)

(ii) You go to the roulette table with RM100 and win another RM200, you are more likely to take a bigger risk with that RM200 in winning that you would if the money was your own to begin with.

(5 marks)

(iii) You paid RM200 for a non-refundable and non-transferable ticket to see a great country and western singer's performance of your favourite on next Thursday. But when Thursday rolls around, you no longer want to go. You feel bad if you do not go, regret having wasted RM 200.

(5 marks)

(iv) The false assumption that own decision is better than others.

(5 marks)

(b) Explain the three major underlying behavioural biases that underlies prospect theory.

(15 marks)

(Total: 35 marks)

Question 2

(a) Discuss the differences between sophisticated investors and irrational investors that exists in the Shleifer model.

(10 marks)

(b) What are the TWO agendas for the noise traders in Shleifer Model?

(10 marks)

(c) Explain the TWO limits to arbitrage in Shleifer Model.

(10 marks)

(Total: 30 marks)

Continued...

Question 3

(a) Discuss the Prospect Theory which comes from the research by Kahneman and Tversky in 1979.

(15 marks)

(b) Compare and contrast the Prospect Theory with Utility Thoery.

(10 marks)

(c) Explain Allais Paradox under Prospect Theory with one example.

(10 marks)

(Total: 35 marks)

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